

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name OSCEOLA TOWNSHIP	County HOUGHTON
Fiscal Year End March 31, 2006	Opinion Date JUNE 16, 2006	Date Audit Report Submitted to State AUGUST 11, 2006	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☐ ☒ The local unit is free of repeated comments from previous years.
  - ☐ ☒ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) BRUCE A. RUKKILA, CPA, PC		Telephone Number 906-482-6601	
Street Address 310 SHELDEN AVENUE		City HOUGHTON	State MI
Zip 49931			
Authorizing CPA Signature 	Printed Name BRUCE A. RUKKILA	License Number 263812	

**OSCEOLA TOWNSHIP**  
**HOUGHTON COUNTY, MICHIGAN**

**AUDITED FINANCIAL STATEMENTS AND**  
**SUPPLEMENTAL FINANCIAL INFORMATION**

**March 31, 2006**

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## INDEPENDENT AUDITOR'S REPORT

Honorable Supervisor and Board of Trustees

Osceola Township

Dollar Bay, Michigan

We have audited the accompanying general purpose financial statements of Osceola Township, as of and for the year ended March 31, 2006. These general purpose financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Township has not adopted the reporting format of Government Accounting Standards Board Statement No. 34.

In our opinion, except for the effects on the general purpose financial statements of the omission described in the preceding paragraph, the dollar amount of which we have not determined, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Osceola Township, as of March 31, 2006, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2006 on our consideration of the Osceola Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund financial statements listed in the table of contents are presented as supplemental information and are not a required part of the general purpose financial statements of Osceola Township. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, except for the effects on the financial statements of the omissions described previously, the dollar amount of which we have not determined, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

*Bruce A. Rukkila, CPA, PC*

Certified Public Accountants

June 16, 2006



Bruce A Rukkila, CPA, PC

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Honorable Supervisor and Board of Trustees  
Osceola Township  
Dollar Bay, Michigan

We have audited the financial statements of Osceola Township as of and for the year ended March 31, 2006, and have issued our report thereon dated June 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance:**

As part of obtaining reasonable assurance about whether Osceola Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, a noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting:**

In planning and performing our audit, we considered Osceola Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components do not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management and federal awarding agencies, and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Bruce A. Rukkila, CPA, PC*

Certified Public Accountants

June 16, 2006

**OSCEOLA TOWNSHIP**  
**COMBINED BALANCE SHEETS - ALL FUND TYPES AND ACCOUNT GROUPS**  
**March 31, 2006**

	Governmental Fund Types		Proprietary Fund Type		Fiduciary Fund Type		Account Groups			Totals (Memorandum Only)
	General Fund	Special Revenue	Enterprise	Fund Type	Agency	Fund Type	General		Long-Term Obligations	
							Fixed Assets			
ASSETS:										
Cash	\$ 102,409	\$ 6,106	\$ 12,544	\$ 35,916	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 156,975
Restricted cash	-	-	63,783	-	-	-	-	-	-	63,783
Receivables	686	1,902	6,663	-	-	-	-	-	-	9,251
Due from other funds	1,473	65,292	-	-	-	-	-	-	-	66,765
Fixed assets	-	-	2,593,618	-	-	-	1,329,036	-	-	3,922,654
Accumulated depreciation	-	-	(683,271)	-	-	-	-	-	-	(683,271)
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	-	-	96,983	-	96,983
TOTAL ASSETS	\$ 104,568	\$ 73,300	\$ 1,993,337	\$ 35,916	\$ -	\$ 1,329,036	\$ 96,983	\$ 3,633,140		
LIABILITIES:										
Accounts payable	\$ 14,324	\$ -	1,339	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	15,663
Due to other funds	65,292	-	1,473	-	-	-	-	-	-	66,765
Current maturities on bonds payable	-	-	5,000	-	-	-	-	-	-	5,000
Bonds payable - net of current maturities	-	-	1,010,000	-	-	-	-	-	-	1,010,000
Due to other governmental units	-	-	-	35,916	-	-	-	-	-	35,916
Accrued expenses	1,869	-	31	-	-	-	-	-	-	1,900
Loan payable	39,600	-	-	-	-	-	-	96,983	-	136,583
Deferred revenue	687	1,902	-	-	-	-	-	-	-	2,589
TOTAL LIABILITIES	121,772	1,902	1,017,843	35,916	-	-	96,983	1,274,416		
FUND EQUITY:										
Contributed capital	-	-	612,292	-	-	-	-	-	-	612,292
Retained earnings	-	-	363,202	-	-	-	-	-	-	363,202
Investment in general fixed assets	-	-	-	-	-	-	1,329,036	-	-	1,329,036
Fund balance - Unreserved	(17,204)	71,398	-	-	-	-	-	-	-	54,194
TOTAL FUND EQUITY	(17,204)	71,398	975,494	-	-	-	1,329,036	-	-	2,358,724
TOTAL LIABILITIES AND FUND EQUITY	\$ 104,568	\$ 73,300	\$ 1,993,337	\$ 35,916	\$ -	\$ 96,983	\$ 3,633,140			

The accompanying notes to financial statements are an integral part of this statement.

**OSCEOLA TOWNSHIP**  
**COMBINED STATEMENTS OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - ALL GOVERNMENT FUND TYPES**  
**Year Ended March 31, 2006**

	<u>Governmental Fund Types</u>		<u>Totals</u>
	<u>General</u>	<u>Special</u>	<u>(Memorandum</u>
	<u>Fund</u>	<u>Revenue</u>	<u>Only)</u>
REVENUES:			
Taxes	\$ 42,356	\$ 51,281	\$ 93,637
State	151,911	-	151,911
Local	-	6,450	6,450
Grants	72,109	-	72,109
Interest	59	137	196
Other	15,459	-	15,459
TOTAL REVENUES	281,894	57,868	339,762
EXPENDITURES:			
Assessor	9,403	-	9,403
Supervisor	10,181	-	10,181
Clerk	10,101	-	10,101
Treasurer	12,439	-	12,439
Township Board	14,732	-	14,732
Township Hall	25,908	-	25,908
General Services	108,302	-	108,302
Elections	1,940	-	1,940
Maintenance buildings	24,098	-	24,098
Fire Protection	101,381	-	101,381
Fire Protection Fund	-	43,286	43,286
Road Improvement Fund	-	4,115	4,115
TOTAL EXPENDITURES	318,485	47,401	365,886
EXCESS REVENUES (EXPENDITURES)	(36,591)	10,467	(26,124)
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	19,387	60,931	80,318
FUND BALANCE (DEFICIT), END OF YEAR	\$ (17,204)	\$ 71,398	\$ 54,194

The accompanying notes to financial statements are an integral part of this statement.

**OSCEOLA TOWNSHIP**  
**COMBINED STATEMENTS OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL & SPECIAL REVENUE FUNDS**  
**Year Ended March 31, 2006**

	General			Special Revenue		
	Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
REVENUES:						
Taxes	\$ 34,600	\$ 42,356	\$ 7,756	\$ -	\$ 51,281	\$ 51,281
State	145,000	151,911	6,911	-	-	-
Local	-	-	-	-	6,450	6,450
Grants	-	72,109	72,109	-	-	-
Interest	100	59	(41)	-	137	137
Other	13,600	15,459	1,859	-	-	-
TOTAL REVENUES	193,300	281,894	88,594	-	57,868	57,868
EXPENDITURES:						
Assessor	5,040	9,403	(4,363)	-	-	-
Supervisor	10,500	10,181	319	-	-	-
Clerk	10,050	10,101	(51)	-	-	-
Treasurer	11,640	12,439	(799)	-	-	-
Township Board	13,200	14,732	(1,532)	-	-	-
Township Hall	23,150	25,908	(2,758)	-	-	-
General Services	60,895	108,302	(47,407)	-	-	-
Elections	3,000	1,940	1,060	-	-	-
Maintenance buildings	23,750	24,098	(348)	-	-	-
Fire Protection	28,380	101,381	(73,001)	-	-	-
Fire Protection Fund	-	-	-	-	43,286	(43,286)
Road Improvement Fund	-	-	-	-	4,115	(4,115)
TOTAL EXPENDITURES	189,605	318,485	(128,880)	-	47,401	(47,401)
EXCESS REVENUES (EXPENDITURES)	\$ 3,695	(36,591)	\$ (40,286)	\$ -	10,467	\$ 10,467
FUND BALANCE (DEFICIT), BEGINNING OF YEAR		19,387			60,931	
FUND BALANCE (DEFICIT), END OF YEAR		\$ (17,204)			\$ 71,398	

The accompanying notes to financial statements are an integral part of this statement.



**OSCEOLA TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN RETAINED EARNINGS**  
**PROPRIETARY FUND TYPE (WATER FUND)**  
**Year Ended March 31, 2006**

OPERATING REVENUES:

Charges for services	\$ 138,782
Other	<u>210</u>
TOTAL OPERATING REVENUES	<u>138,992</u>

EXPENSES:

Salaries	17,764
Payroll taxes	1,359
Communication	5,465
Operating supplies	93
Repairs and maintenance	6,477
Office supplies	971
Utilities	7,725
Rental	1,500
Membership dues	1,117
Travel expenses	5,115
Reserve expense	384
Sampling	1,208
Water system improvements	978
Repair and replacement	1,035
Professional services	717
Depreciation	64,238
Miscellaneous	<u>495</u>
TOTAL EXPENSES	<u>116,641</u>

OPERATING INCOME (LOSS)	<u>22,351</u>
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NON-OPERATING REVENUES (EXPENSES):

Interest income	1,789
Interest expense	<u>(46,910)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(45,121)</u>

NET INCOME (LOSS)	(22,770)
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RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	367,719
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ADJUSTMENTS TO FUND EQUITY	<u>18,253</u>
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RETAINED EARNINGS (DEFICIT), END OF YEAR	<u>\$ 363,202</u>
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The accompanying notes to financial statements are an integral part of this statement.

**OSCEOLA TOWNSHIP**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND TYPE (WATER FUND)**  
**Year Ended March 31, 2006**

RECONCILIATION OF OPERATING

INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating Income (Loss)	\$ 22,351
Adjustments to Reconcile Operating	
Income to Net Cash Provided by Operating Activities:	
Depreciation	64,238
(Increase) Decrease in accounts receivable	2,101
(Increase) Decrease in due from other funds	0
Increase (Decrease) in accounts payable	(1,191)
Increase (Decrease) in due to other funds	1,473
Increase (Decrease) in accrued expenses	<u>(1,344)</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES

87,628

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of fixed assets	(2,596)
Proceeds from long-term debt	0
Proceeds from federal grant	0
Bond payments	(15,000)
Interest paid on bonds	<u>(46,910)</u>

NET CASH FLOWS FROM CAPITAL AND RELATED  
FINANCING ACTIVITIES

(64,506)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest received on cash deposits	<u>1,789</u>
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NET CASH FLOWS FROM INVESTING ACTIVITIES

1,789

NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH

24,911

CASH AND RESTRICTED CASH, BEGINNING OF YEAR

51,416

CASH AND RESTRICTED CASH, END OF YEAR

\$ 76,327

The accompanying notes to financial statements are an integral part of this statement.

**OSCEOLA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2006**

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Osceola Township is a General Law Township located in Houghton County, Michigan, and encompasses an area of 26.5 square miles. The Township operates under an elected Board of Trustees (5 members, including the Township Supervisor, Township Clerk, Township Treasurer, and two trustees) and provides services to a population of approximately 1,875 Township residents.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Osceola Township conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

**FINANCIAL REPORTING ENTITY**

As required by generally accepted accounting principles, the financial statements of Osceola Township contain all of the Township's funds. There are no other governmental units within the Township that are controlled by or dependent upon the Township's Board of Trustees. Control by or dependence on the Township was determined on the basis of appointment of governing authority, budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the Township, obligation of the Township to finance any deficits that may occur, surplus funds, and scope of public service.

**FUND ACCOUNTING**

The accounts of the Township are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent, and the means by which spending activities are controlled. The various funds of the Township are grouped in the financial statements in this report into three broad fund types and four generic funds as follows:

**GOVERNMENTAL FUND TYPES**

**General Fund**

The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Funds**

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are legally restricted to expenditures for specific purposes. The Fire Protection and Road Improvement are special revenue type funds.

**OSCEOLA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2006**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**PROPRIETARY FUND TYPE**

Enterprise Fund (Water Fund)

Enterprise Funds are used to account for operations, (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Water Fund is an enterprise type fund.

**FIDUCIARY FUND TYPE**

Trust and Agency Fund

The Trust and Agency Fund (Tax Collection Fund) is used to account for assets held by the Township in trustee capacity as an agent for individuals, private organizations, other governments, and/or other funds of the Township. This fund is custodial in nature (assets equal liabilities) and does not involve measurement of the results of operations.

**FIXED ASSETS AND LONG-TERM LIABILITIES**

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets (expendable available financial resources) and current liabilities (those expected to be liquidated with expendable financial resources) are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statement present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in governmental funds. A public domain's ("infrastructure") general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized along with other general fixed assets. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. The township has approved to record all assets over the amount of \$3,000.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds.

**OSCEOLA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2006**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The General Fixed Assets Account Group and the General Long-Term Debt Account Group are not "funds." Their purpose is related only to the measurement of financial position. They are not involved with measurement of results of operations.

Proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Operating statements of proprietary fund types present increases (revenues) and decreases (expenses) in net total assets.

Depreciation on all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations on a straight-line basis. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation is based on estimated useful lives using 5 years for equipment and 10-40 years for other assets. Depreciation expense for the year ended March 31, 2006 was \$64,238.

**BASIS OF ACCOUNTING**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Under this basis revenues are recognized when they become both measurable and available to finance expenditures of the current period. Significant revenues susceptible to accrual include payments in lieu of taxes, federal and state sources, and other intergovernmental revenues. Other revenue sources such as licenses, permits, charges for services, sales, fees, fines, rentals, and others are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are not accrued in the governmental fund types and Agency Funds.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, with certain exceptions such as interest on long-term debt which is generally recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses recognized when they are incurred.

The Trust and Agency Fund is accounted for on the basis of cash receipts and cash disbursements.

**OSCEOLA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2006**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**BUDGETARY DATA**

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. During February, the Township Clerk prepares a proposed budget for the General and Special Revenue Funds for the fiscal year commencing the following April 1 and submits the proposed budget to the Township Board of Trustees at the regular March meeting.
- b. The Township Board of Trustees reviews the budget, which includes proposed expenditures and the means of financing them.
- c. The budget, subsequent to approval by the Board of Trustees, is submitted to the Township at the Annual Meeting, at which time public comment is invited and the final budget is formally adopted.
- d. The Board of Trustees reviews the budget during the fiscal year and makes amendments as it deems appropriate.
- e. Budget appropriations lapse at the end of the fiscal year.
- f. The annual budget for the Enterprise (Water) Fund is approved and submitted to the Farmers Home Administration in April of each year.

**ENCUMBRANCES**

Encumbrances are defined as commitments related to unperformed contracts for goods and services. The Township does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.

**PROPERTY TAXES**

Property taxes are levied based on assessed values of property located in the Township. Assessed values are established annually (the first Monday in March) and equalized by the State. The property taxes are levied on December 1, and are payable without penalty through the following February 14. Property taxes are recognized as revenue in the fiscal year levied to the extent that they are measurable and available in accordance with NCGA interpretation 3 (Revenue Recognition - Property Taxes). The property taxes become an enforceable lien on property as of December 31.

The Township collects its own property taxes, and also collects property taxes for the County and the School Districts within its jurisdiction, and sewer assessments for Torch Lake Water and Sewage Authority. Collections and remittances of all property taxes are accounted for in the Trust and Agency Fund.

**OSCEOLA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2006**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The 2005 taxable valuation of Osceola Township amounted to \$22,364,498 on which ad valorem taxes of \$27,474 were levied for Township operating purposes (1.2888 mills), \$18,637 for Tamarack City fire protection (3.91 mills), \$5,925 for Dollar Bay fire protection (.51 mills), and \$21,133 for Township road improvements (.9914 mills). These amounts are recorded as revenue on the Township's records in and for the fiscal year ending March 31, 2006.

**TOTAL COLUMNS ON COMBINED BALANCE SHEETS - ALL FUNDS**

The total columns on the combined statements of this report are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in this column does not present financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation which requires that inter-fund eliminations be made in the aggregation of this data.

**CASH**

For the purpose of the statement of cash flows, cash is defined as checking, money market, certificates of deposits, and savings accounts.

**INVENTORY**

Inventory consists of expendable supplies and materials which are accounted for under the consumption method and accordingly are recorded as expenditures when they are used.

**ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE B - CASH AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91, authorizes the township to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other direct obligation of the United States, or any agency or instrumentality of the United States; United States Government or Federal Agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local governments in Michigan. Financial institutions eligible for deposits of public funds must maintain an office in Michigan.

The Township Board has designated two banks for the deposit of township funds. The Township Board in accordance with Public Act 196 of 1997 adopted an investment policy.

**OSCEOLA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2006**

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**NOTE B - CASH AND INVESTMENTS (Continued)**

**CASH DEPOSITS**

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Enterprise Funds	Total
Cash and investments	\$ 108,515	\$ 35,916	\$ 76,327	\$ 220,758

Governmental Accounting Standards Board (GASB) Statement No. 3, requires reporting risk disclosures. At March 31, 2006, the book value of the Township's demand deposits, consisting primarily of certificates of deposit and other cash equivalents, was \$220,758 with a corresponding bank balance of \$293,147. Qualifying deposits are insured by the Federal Deposit Insurance Corporation up to \$100,000. Of the bank balance, approximately \$229,963, representing approximately 99% of the Township's deposits, was covered by Federal Depository Insurance. Michigan law does not require collateralization of government deposits, therefore, only the \$292,353 was insured and \$794 was neither insured nor collateralized.

**NOTE C - RESTRICTED CASH - ENTERPRISE FUNDS**

Proceeds from operation of the Water Supply Fund are set aside for payment of revenue bonds and are restricted assets on the enterprise fund balance sheet since their use is limited by the bond indenture and ordinance.

These amounts were sufficient at March 31, 2006 to meet the bond reserve requirements of the bond ordinance.

**NOTE D - INTERFUND RECEIVABLES AND PAYABLE**

The amounts of interfund receivables and payables at March 31, 2006 are as follows:

	Receivable		Payable
Fire Protection	\$ 15,934	General	\$ 65,292
Road Improvement	49,358	Water	1,473
General	1,473		
<b>TOTAL</b>	<b>\$ 66,765</b>	<b>TOTAL</b>	<b>\$ 66,765</b>



**OSCEOLA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2006**

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**NOTE E - PROPERTY, PLANT, AND EQUIPMENT**

A summary of the changes in the General Fixed Assets Account Group is as follows:

	Balance 03/31/05	Additions	Deductions	Balance 03/31/06
Land	\$ 477,024	\$ -	\$ -	\$ 477,024
Buildings	401,914	3,783	-	405,697
Vehicles	287,129	-	-	287,129
Equipment & Machinery	48,219	5,390	-	53,609
Improvements	20,655	-	-	20,655
Roads & Streets	84,922	-	-	84,922
<b>TOTAL</b>	<b>\$ 1,319,863</b>	<b>\$ 9,173</b>	<b>\$ 0</b>	<b>\$ 1,329,036</b>

**NOTE F - WATER FUND FIXED ASSETS**

Changes in the Water Fund fixed assets in fiscal year 2006 are as follows:

	Balance 03/31/05	Additions	Deductions	Balance 03/31/06
Land	\$ 15,600	\$ -	\$ -	\$ 15,600
Computers	8,239	-	-	8,239
Vehicles	10,200	-	-	10,200
Water System	2,556,983	2,596	-	2,559,579
<b>TOTAL</b>	<b>\$ 2,591,022</b>	<b>\$ 2,596</b>	<b>\$ 0</b>	<b>\$ 2,593,618</b>

**NOTE G - LONG-TERM DEBT**

**WATER SUPPLY SYSTEM REVENUE BONDS**

The Township of Osceola Water Supply System Revenue Bonds, dated May 5, 1981, in the amount of \$170,000 were purchased at par by the Farmers Home Administration. The bonds were issued pursuant to Ordinance No. 13, adopted by the Township on December 11, 1980, as amended. The bonds mature serially on January 1, of each year.

The Revenue bonds are self-liquidating and not a general obligation of the Township, but shall be payable solely from the revenues derived from the operation of the system. A statutory first lien has been created on these revenues.

Bonds maturing in the years 1992 to 2021, are subject to redemption prior to maturity, in inverse numerical order, at the option of the Township, on any interest payment date on or after January 1, 1991, at par and accrued interest.

**OSCEOLA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2006**

**NOTE G - LONG-TERM DEBT (Continued)**

The bonds mature as indicated below with interest at 5% per annum payable semi-annually on January 1, and July 1 of each year.

**SCHEDULE OF WATER SUPPLY &  
DISTRIBUTION SYSTEM REVENUE BONDS**

Fiscal Year Ending	March 31, 2006			
	July 1 <sup>st</sup> Interest	January 1 <sup>st</sup> Interest	Principal	Total
2006-2007	\$ 2,675	\$ 2,675	\$ 5,000	\$ 10,350
2007-2008	2,550	2,550	5,000	10,100
2008-2009	2,425	2,425	6,000	10,850
2009-2010	2,275	2,275	6,000	10,550
2010-2011	2,125	2,125	6,000	10,250
2011-2016	8,200	8,200	36,000	52,400
2016-2021	3,300	3,300	43,000	49,600
<b>TOTAL</b>	<b>\$ 23,550</b>	<b>\$ 23,550</b>	<b>\$ 107,000</b>	<b>\$ 154,100</b>

**Water Supply System Junior Lien Revenue Bond, Series 2003A**

Water Supply System Junior Lien Revenue Bond, Series 2003A was issued in 2003 in the amount of \$756,000 for the purpose of acquiring, constructing certain additions, renovations, expansion, and equipping improvements to the Township's water supply system. This bond is self-liquidating and is not a general obligation of the Township, but is payable both as to principal and interest solely from the revenues of the Water Supply System. The bond bears an interest rate not to exceed 4.5% per annum.

The bonds are subject to redemption prior to maturity, in inverse chronological order, at the option of the Township, on any interest payment date after October 1, 2006. The payment schedule for the bond is as follows:

**2003A SCHEDULE OF WATER SUPPLY  
SYSTEM REVENUE BONDS**

March 31, 2006

Fiscal Year	April Interest	April Principal	October 1 Interest	Total
2006-07	\$ -	\$ -	\$ 16,515	\$ 16,515
2007-08	16,515	8,000	16,335	40,850
2008-09	16,335	8,000	16,155	40,490
2009-10	16,155	9,000	15,953	41,108
2010-11	15,954	9,000	15,750	40,704
2011-16	76,478	52,000	75,308	203,786
2016-21	70,110	65,000	68,648	203,758
2021-26	62,055	82,000	60,210	204,265
2026-31	51,998	101,000	49,725	202,723
2031-36	39,600	125,000	36,788	201,388
2036-41	24,165	157,000	20,633	201,798
2041-44	5,513	118,000	2,858	126,371
<b>TOTAL</b>	<b>\$ 394,878</b>	<b>\$ 734,000</b>	<b>\$ 394,878</b>	<b>\$ 1,523,756</b>

**OSCEOLA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2006**

**NOTE G - LONG-TERM DEBT (Continued)**

Water Supply System Junior Lien Revenue Bond, Series 2003B

Water Supply System Junior Lien Revenue Bond, Series 2003B was issued in 2003 in the amount of \$179,000 for the purpose of acquiring, constructing certain additions, renovations, expansion, and equipping improvements to the Township's water supply system. This bond is self-liquidating and is not a general obligation of the Township, but is payable both as to principal and interest solely from the revenues of the Water Supply System. The bond bears an interest rate not to exceed 4.5% per annum.

The bonds are subject to redemption prior to maturity, in inverse chronological order, at the option of the Township, on any interest payment date after October 1, 2006. The payment schedule for the bond is as follows:

2003B SCHEDULE OF WATER SUPPLY  
SYSTEM REVENUE BONDS  
 March 31, 2006

<u>Fiscal Year</u>	<u>April Interest</u>	<u>April Principal</u>	<u>October Interest</u>	<u>Total</u>
2006-07	\$ -	\$ -	\$ 3,915	\$ 3,915
2007-08	3,915	2,000	3,870	9,785
2008-09	3,870	2,000	3,825	9,695
2009-10	3,825	2,000	3,780	9,605
2010-11	3,780	2,000	3,735	9,515
2011-16	18,203	12,000	17,933	48,136
2016-21	16,650	15,000	16,313	47,963
2021-26	14,738	20,000	14,288	49,026
2026-31	12,353	24,000	11,813	48,166
2031-36	9,338	31,000	8,640	48,978
2036-41	5,603	37,000	4,770	47,373
2041-44	1,215	27,000	606	28,821
<b>TOTAL</b>	<b>\$ 93,490</b>	<b>\$ 174,000</b>	<b>\$ 93,488</b>	<b>\$ 360,978</b>

OTHER LONG-TERM DEBT

The Township has several installment loans payable which are detailed below:

<u>Purpose of Loan</u>	<u>Date Of Issue</u>	<u>Original Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>3/31/06 Balance</u>
Building	06/01/97	\$50,300	06/01/07	7.00%	\$8,918
D.B Fire Truck	12/09/99	\$110,000	06/01/14	4.75%	\$53,829
T.C. Fire Truck	07/03/03	\$52,500	03/15/11	3.90%	\$34,236

**OSCEOLA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2006**

**NOTE G - LONG-TERM DEBT (Continued)**

**SCHEDULE OF BUILDING LOAN**

March 31, 2006

Payable Fiscal Year	Principal	Interest	Total
2006-2007	\$ 5,852	\$ 524	\$ 6,376
2007-2008	3,066	107	3,173
TOTAL	<u>\$ 8,918</u>	<u>\$ 631</u>	<u>\$ 9,549</u>

**SCHEDULE OF D.B. FIRE TRUCK LOAN**

March 31, 2006

Fiscal Year	December 1 <sup>st</sup>	June 1 <sup>st</sup>		Total
	Interest	Interest	Principal	
2006-2007	\$ 1,496	\$ 1,663	\$ 7,000	\$ 10,159
2007-2008	1,330	1,496	7,000	9,826
2008-2009	1,164	1,330	7,000	9,494
2009-2010	998	1,164	7,000	9,162
2010-2011	808	998	8,000	9,806
2011-2014	1,090	1,470	17,829	20,389
TOTAL	<u>\$ 6,886</u>	<u>\$ 8,121</u>	<u>\$ 53,829</u>	<u>\$ 68,836</u>

**SCHEDULE OF T.C. FIRE TRUCK LOAN**

March 31, 2006

Fiscal Year	Interest	Principal	Total
2006-2007	\$ 1,333	\$ 6,377	\$ 7,710
2007-2008	1,087	6,570	7,657
2008-2009	830	6,827	7,657
2009-2010	564	7,092	7,656
2010-2011	287	7,370	7,657
TOTAL	<u>\$ 4,101</u>	<u>\$ 34,236</u>	<u>\$ 38,337</u>

As of March 31, 2006, the aggregate maturities of loans payable are as follows:

Fiscal Year	Interest	Principal	Total
2006-2007	\$ 5,016	\$ 19,229	\$ 24,245
2007-2008	4,020	16,636	20,656
2008-2009	3,324	13,827	17,151
2009-2010	2,726	14,092	16,818
2010-2011	2,093	15,370	17,463
2011-2014	2,560	17,829	20,389
TOTAL	<u>\$ 19,739</u>	<u>\$ 96,983</u>	<u>\$ 116,722</u>

The following is a summary of the changes in long-term debt for the year ended March 31, 2006:

	3/31/05	Additions	Subtractions	3/31/06
Water Bonds	\$ 1,030,000	\$ 0	\$ 15,000	\$ 1,015,000
Note Payables	131,649	0	34,666	96,983
TOTAL	<u>\$ 1,161,649</u>	<u>\$ 0</u>	<u>\$ 49,666</u>	<u>\$ 1,111,983</u>

**OSCEOLA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2006**

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**NOTE G - LONG-TERM DEBT (Continued)**

As of March 31, 2006, the aggregate maturities of long-term debt for the next five years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	\$ 24,229	\$ 30,796	\$ 55,025
2007-2008	31,636	49,755	81,391
2008-2009	29,827	48,359	78,186
2009-2010	31,092	46,989	78,081
2010-2011	32,370	45,592	77,962
2011-2016	117,829	206,882	324,711
2016-2021	123,000	178,321	301,321
2021-2026	102,000	151,291	253,291
2026-2031	125,000	125,889	250,889
2031-2036	156,000	94,336	250,336
2036-2041	194,000	55,171	249,171
2041-2044	145,000	10,192	155,192
<b>TOTAL</b>	<b><u>\$ 1,111,983</u></b>	<b><u>\$ 1,043,573</u></b>	<b><u>\$ 2,155,556</u></b>

**NOTE H - BOND PAYMENT AND RESERVE REQUIREMENTS**

The 1981 Water Supply System Revenue Bonds require that the Township establish a bond reserve account to be used for payment on the bonds in the event of default. At March 31, 2006, there was \$12,715 in the Bond Reserve account which is in compliance with bond requirements.

The ordinance authorizing issuance of the 2003 Water Supply System Revenue Bonds required that specific accounts be established and monies deposited as follows:

Bond Reserve Fund - Quarterly transfers are to be made in the sum of at least \$1,282.50 per quarter, until there is accumulated in such fund the aggregate sum of \$51,300.

Bond and Interest Redemption Fund - Quarterly transfers are to be made equal to ½ of the next interest payment due plus ¼ of the next principal payment due.

Repair, Replacement and Improvement Fund - Quarterly transfers are to be made in the sum of not less than \$3,642.50, less the amount, if any, deposited in the Bond Reserve Fund.

At March 31, 2006, the Township has established these restricted cash accounts, as required:

	<u>Requirements</u>	<u>Amount Funded</u>
1981 Bond and interest redemption fund	\$ 11,000	\$ 11,000
2003 Bond and interest redemption fund	12,715	12,715
2003 Bond reserve	14,108	14,108
2003 Repair, replacement, and improvement fund	25,960	25,960
	<b><u>\$ 63,783</u></b>	<b><u>\$ 63,783</u></b>

**OSCEOLA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2006**

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**NOTE I - DEFINED CONTRIBUTION PLAN**

The Township is a member of a Defined Contribution Pension Plan for Michigan Township Employees and provides pension benefits for all of its eligible employees through this plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Elected Township officials are eligible to participate. The Township policy requires contributions of \$80 per quarter for trustees and \$225 per quarter for Supervisor, Clerk, and Treasurer. Voluntary after-tax contributions may be made up to a maximum of 10% of annual compensation. Township contributions for each employee and interest allocated to the employee's account are fully vested. Amounts contributed voluntarily by the employee under the plan, plus any interest earnings, are fully vested at the time of the contribution or crediting of investment earnings. The Township made contributions totaling \$3,240.

**NOTE J - SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The Township maintained one Enterprise Fund which provides water services to all residents. Segment information for the year ended March 31, 2006 is as follows:

Operating revenues	\$138,991
Depreciation	\$64,238
Operating income (loss)	\$22,350
Non-operating revenues (expenses)	\$(45,121)
Net income (loss)	\$(22,771)
Property, plant and equipment - additions	\$2,593,618
Net working capital (deficit)	\$75,146
Total assets	\$1,993,337
Long-term liabilities	\$1,010,000
Total equity	\$975,493

**NOTE K - JOINT VENTURES**

**TORCH LAKE AREA SEWAGE AUTHORITY**

On April 4, 1977, the Townships of Osceola, Schoolcraft, and Torch Lake, and the Village of Lake Linden contracted with the County of Houghton to construct a sewage disposal system. Funds for the construction of this facility were provided by grants from Federal and State agencies and issuance of bonds. Bonds totaling \$1,765,000 were issued in November of 1979. The County of Houghton serves as general obligor for payment of principal and interest on the bonds. On August 14, 1980 these municipalities established the Torch Lake Area Sewage Authority, which subsequently contracted with the County of Houghton to operate the System. On May 10, 1989, the County of Houghton and the four municipalities adopted an Amendment to the Contract for Acquisition, Financing, and Operation of this system retroactive to May 1, 1988. The amendment provides, among other things, for a uniform surcharge for all users of the system and a waiver of all provisions contained in the original agreement regarding the allocation of expenses on a proportional basis.

**OSCEOLA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2006**

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**NOTE K - JOINT VENTURES (Continued)**

The final allocated project cost to the local units was as follows:

Village of Lake Linden	41.36%
Torch Lake Township	30.76
Osceola Township	16.71
Schoolcraft Township	<u>11.17</u>
TOTAL	<u>100.00%</u>

The articles of incorporation of the Torch Lake Area Sewage Authority provide for a Board of Trustees to be the governing body. The Board consists of nine members of which two are appointed by each of the above units and one member appointed by the County of Houghton.

The elements considered in the Township's determination that the Torch Lake Area Sewage Authority should not be included as a component unit of the Township are as follows:

1. Osceola Township is not responsible for the designation of the Authority's management.
2. The Township does not significantly influence operations.
3. The municipalities each appoint two of the nine members to the Authority's Board of Trustees.
4. The Township does not have significant fiscal management responsibilities. It does not have a right to receive surplus funds, but is responsible for guaranteeing certain debt along with the other municipalities.
5. The Township provides no direct on-going financial support to the Sewage Authority.
6. The Township does not hold title to the physical assets of the Authority.

A summary of the Authority's financial information for the year ended December 31, 2005 (most recent year compiled) shows the following:

Total assets	\$3,923,597
Total liabilities	\$285,263
Total equity	\$3,638,334
Total revenues	\$367,281
Total expenditures	\$379,351
Long-term debt	\$115,843

The Township does not account for its investment in the Authority using the Equity method, as required by Generally Accepted Accounting Principles.

A special assessment of \$135,000 was charged to the property owners who benefitted from the disposal system. Taxpayers were given the option of paying the amount in full or over a thirty-year period, plus interest at 6%. \$3,755 was unpaid on the special assessment at December 31, 2005.

**OSCEOLA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2006**

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**NOTE K - JOINT VENTURES (Continued)**

**NORTH HOUGHTON COUNTY WATER AND SEWER AUTHORITY**

On April 14, 1983 the North Houghton County Water and Sewer Authority was formed by the Villages of Calumet and Laurium and the Townships of Calumet and Osceola for the purpose of constructing and making improvements to waste water collection, transmission, and treatment facilities serving residents of these municipalities. In 1989 the Authority acquired an existing sewage system from the Village of Laurium. The authority has entered into a consent decree with the Michigan Department of Natural Resources to improve the wastewater system. Federal funding totaling approximately \$7,467,660 was obtained to construct improvements necessary to comply with this agreement.

The articles of incorporation of the Authority provide for a Board of Trustees to be the governing body. The Board consists of seven members of which one member is appointed by Osceola Township.

The elements considered in the Township's determination that the North Houghton County Water & Sewage Authority should not be included as a component unit of the Township are as follows:

1. Osceola Township is not responsible for the designation of the Authority's management.
2. The Township does not significantly influence operations.
3. Osceola township appoints only one member to the Authority's Board of Trustees.
4. The Township does not have significant fiscal management responsibilities. It does not have a right to receive surplus funds, but is responsible for guaranteeing certain debt along with the other municipalities.
5. The Township provides no direct on-going financial support to the Authority.
6. The Township does not hold title to the physical assets of the Authority.

A summary of the Authority's financial information for the four years ended December 31, 2004 (most recent period audited) shows the following:

Total assets	\$13,621,286
Total liabilities	\$8,358,708
Total equity	\$5,262,578
Total revenues	\$847,428
Total expenditures	\$1,092,828
Long-term debt	\$8,319,000

The Township does not account for its investment in the Authority using the Equity method, as required by Generally Accepted Accounting Principles.



**OSCEOLA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2006**

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**NOTE L - EXCESS EXPENDITURES OVER BUDGET**

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the township for these budgetary funds were adopted to the activity level.

During the year ended March 31, 2006, the Township incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

<u>Fund/Activity</u>	<u>Total</u> <u>Appropriations</u>	<u>Amount of</u> <u>Expenditures</u>	<u>Budget</u> <u>Variances</u>
General Fund:			
Assessor	\$5,040	\$9,403	\$(4,363)
Clerk	\$10,050	\$10,101	\$(51)
Treasurer	\$11,640	\$12,439	\$(799)
Township Board	\$13,200	\$14,732	\$(1,532)
Township Hall	\$23,150	\$25,908	\$(2,758)
General Services	\$60,895	\$108,302	\$(47,407)
Fire Protection	\$28,380	\$101,381	\$(73,001)
Fire Protection Fund	\$0	\$43,286	\$(43,286)
Road Improvement Fund	\$0	\$4,115	\$(4,115)

**NOTE M - RISK MANAGEMENT**

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township continues to carry commercial insurance for property, liability, wrongful acts, crime inland marine, and other risks of loss including worker's compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE N - COMMITMENTS AND CONTINGENCIES**

Sandy Bottom Park - The Township has applied for a grant for Phase II of the Sandy Bottom Park project with Michigan Coastal Management. The application was submitted 4/29/06 and the grant money is expected in November of 2006.

Tamarack City Park Project - The township has applied for the Federal Land & Water Conservation Fund with the Michigan Department of Natural Resources for the Tamarack City Park Project. Application was submitted on 5/10/06 and it's unknown as to whether the Township will be granted the money.

**NOTE O - DEFICIT FUND BALANCE**

The General Fund financial statements show a deficit of \$17,204 at March 31, 2006.

**SUPPLEMENTAL FINANCIAL INFORMATION**

**OSCEOLA TOWNSHIP**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
**Year Ended March 31, 2006**

REVENUES:

Property tax	\$	30,505
Other tax		90
Commercial Forest Revenue (CFR)		53
State shared revenues		148,651
Other state revenue		3,260
Grants		72,109
Interest		59
Other charges		9,164
Administration fees		11,708
Reimbursements		2,581
Miscellaneous		<u>3,714</u>

TOTAL REVENUES		<u>281,894</u>
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EXPENDITURES:

ASSESSOR:

Salaries		7,092
Office supplies		711
Training		<u>1,600</u>
Total assessor		<u>9,403</u>

SUPERVISOR:

Salaries		8,712
Payroll taxes		667
Travel expenses		<u>802</u>
Total supervisor		<u>10,181</u>

CLERK:

Salaries		9,240
Payroll taxes		707
Travel expenses		<u>154</u>
Total clerk		<u>10,101</u>

TREASURER:

Salaries		11,414
Payroll taxes		873
Travel expenses		<u>152</u>
Total treasurer		<u>12,439</u>

TOWNSHIP BOARD:

Salaries		9,006
Payroll taxes		689
Fringe benefits		3,417
Travel expenses		53
Miscellaneous		<u>1,566</u>
Total township board		<u>14,732</u>

**OSCEOLA TOWNSHIP**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
**(Continued)**  
**Year Ended March 31, 2006**

**TOWN HALL:**

Operating supplies	13,852
Rent	64
Utilities	5,576
Principal payments	5,463
Interest expense	913
Miscellaneous	40
Total town hall	<u>25,908</u>

**OTHER ACTIVITIES:**

Insurance	6,578
Communication	2,347
Membership dues	1,119
Printing and publishing	921
Professional services	2,446
Projects	7,399
Board of review	1,644
Street lights	34,907
Capital outlay	41,495
Miscellaneous	9,446
Total other activities	<u>108,302</u>

**ELECTIONS:**

Salaries	1,195
Payroll taxes	39
Office supplies	644
Travel expense	62
Total elections	<u>1,940</u>

**MAINTENANCE BUILDING:**

Salaries	15,881
Payroll taxes	1,214
Operating supplies	3,179
Contract services	1,675
Repairs and maintenance	438
Utilities	363
Capital outlay	1,323
Miscellaneous	25
Total maintenance building	<u>24,098</u>

**OSCEOLA TOWNSHIP**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
**(Continued)**  
**Year Ended March 31, 2006**

FIRE PROTECTION:	
Operating supplies	5,799
Contracted services	19,120
Membership dues	47
Printing & publishing	188
Utilities	3,002
Capital outlay	73,025
Miscellaneous	<u>200</u>
Total fire protection	<u>101,381</u>
 TOTAL EXPENDITURES	 <u>318,485</u>
 EXCESS REVENUES (EXPENDITURES)	 <u>(36,591)</u>
 FUND BALANCE (DEFICIT), BEGINNING OF YEAR	 <u>19,387</u>
 FUND BALANCE (DEFICIT), END OF YEAR	 <u>\$ (17,204)</u>

**OSCEOLA TOWNSHIP**  
**SPECIAL REVENUE FUNDS**  
**COMBINING BALANCE SHEETS**  
**March 31, 2006**

	<u>Fire Protection</u>	<u>Road Improvement</u>	<u>Totals (Memorandum Only)</u>
ASSETS:			
Cash	\$ 6,106	\$ -	\$ 6,106
Taxes receivable	1,402	500	1,902
Due from other funds	<u>15,934</u>	<u>49,358</u>	<u>65,292</u>
 TOTAL ASSETS	 <u>\$ 23,442</u>	 <u>\$ 49,858</u>	 <u>\$ 73,300</u>
LIABILITIES:			
Deferred revenue	\$ 1,402	\$ 500	\$ 1,902
 TOTAL LIABILITIES	 <u>1,402</u>	 <u>500</u>	 <u>1,902</u>
FUND EQUITY:			
Fund balance	<u>22,040</u>	<u>49,358</u>	<u>71,398</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$ 23,442</u>	 <u>\$ 49,858</u>	 <u>\$ 73,300</u>

**OSCEOLA TOWNSHIP**  
**SPECIAL REVENUE FUNDS**  
**COMBINING STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
**Year Ended March 31, 2006**

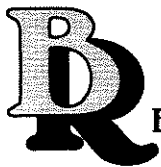
	<u>Fire Protection</u>	<u>Road Improvement</u>	<u>Totals (Memorandum Only)</u>
REVENUES:			
Taxes	\$ 27,772	\$ 23,509	\$ 51,281
Local	6,450	-	6,450
Interest	<u>12</u>	<u>125</u>	<u>137</u>
 TOTAL REVENUES	 <u>34,234</u>	 <u>23,634</u>	 <u>57,868</u>
 EXPENDITURES:			
Operating supplies	962	4,115	5,077
Utilities	1,596	-	1,596
Communication	184	-	184
Insurance	5,873	-	5,873
Equipment	714	-	714
Miscellaneous	78	-	78
Interest expense	4,678	-	4,678
Loan payments	<u>29,202</u>	<u>-</u>	<u>29,202</u>
 TOTAL EXPENDITURES	 <u>43,286</u>	 <u>4,115</u>	 <u>47,401</u>
 EXCESS REVENUES (EXPENDITURES)	 (9,052)	 19,519	 10,467
 FUND BALANCE (DEFICIT), BEGINNING OF YEAR	 <u>31,092</u>	 <u>29,839</u>	 <u>60,931</u>
 FUND BALANCE, END OF YEAR	 <u>\$ 22,040</u>	 <u>\$ 49,358</u>	 <u>\$ 71,398</u>

**OSCEOLA TOWNSHIP**  
**TRUST AND AGENCY FUND**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**Year ended March 31, 2006**

TAX COLLECTION FUND

	<u>Balance 03/31/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 03/31/06</u>
ASSETS:				
Cash	\$ 5,474	\$ 1,642,845	\$ 1,612,403	\$ 35,916
TOTAL ASSETS	<u>\$ 5,474</u>	<u>\$ 1,642,845</u>	<u>\$ 1,612,403</u>	<u>\$ 35,916</u>
LIABILITIES				
Due to schools	\$ 0	\$ 475,842	\$ 446,453	\$ 29,389
Due to State	<u>5,474</u>	<u>4,550</u>	<u>3,497</u>	<u>6,527</u>
TOTAL LIABILITIES	<u>\$ 5,474</u>	<u>\$ 480,392</u>	<u>\$ 449,950</u>	<u>\$ 35,916</u>





Bruce A Rukkila, CPA, PC

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## LETTER OF COMMENTS AND RECOMMENDATIONS

Honorable Supervisor and Board of Trustees  
Osceola Township  
Dollar Bay, Michigan

In connection with our audit of the financial statements of Osceola Township for the year ended March 31, 2006, the following comments and recommendations concerning accounting procedures and controls in effect in the Township are presented for your consideration and action.

### Excess Expenditures over Budget

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended March 31, 2006, the Township incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

<u>Fund/Activity</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variances</u>
General Fund:			
Assessor	\$5,040	\$9,403	\$(4,363)
Clerk	\$10,050	\$10,101	\$(51)
Treasurer	\$11,640	\$12,439	\$(799)
Township Board	\$13,200	\$14,732	\$(1,532)
Township Hall	\$23,150	\$25,908	\$(2,758)
General Services	\$60,895	\$108,302	\$(47,407)
Fire Protection	\$28,380	\$101,381	\$(73,001)
Fire Protection Fund	\$0	\$43,286	\$(43,286)
Road Improvement Fund	\$0	\$4,115	\$(4,115)

We recommend that timely revisions be made to the budget and to the appropriations so that these over expenditures do not occur in the future.

### Budget Approval

According to Michigan Department of Treasury budget revisions and approval must be performed prior to the fiscal year end. We noted the budget was not approved until May 11, 2006. We recommend the Township's annual budget be approved prior to the beginning of the fiscal year to which the budget pertains and revisions approved before the end of the fiscal year.

It is also important, when adopting or amending the budget, to report in the board minutes the total revenues and expenditures approved and attach a signed copy of the budget to the board minutes.

### Board Minute Documentation

At the first meeting of the year, authorization of the Township's public depositories (banks), attorney, auditor, and insurance company should be done and noted in the minutes. At the same time, check signers should be authorized and noted in the minutes.

### Disbursement Documentation

During the course of the audit, the staff was unable to locate records necessary to substantiate some transactions. We recommend that records relating to all disbursements be retained.

### Purchase Orders

We noted that purchase orders are not being utilized. We recommend that the Township have employees fill out a purchase order and seek approval before items are purchased.

### Deficit Fund Balance

The General Fund financial statements show a deficit of \$17,204 at March 31, 2006.

In accordance with Public Act 275 of 1980, the Township must formulate and file a deficit elimination plan (DEP) with the State Treasurer to correct the deficit situation. This DEP must contain: (1) a copy of current trial balances showing the deficit eliminated; (2) copy of Township resolution noting the plans for eliminating the deficit; and (3) a projected budget, approved by the Township, itemizing the revenues, expenditures and the changes in the fund balance.

We would like to thank the staff for the excellent cooperation we received during our audit. We appreciate the opportunity to present these comments and recommendations for your consideration and we are prepared to discuss them at your convenience.

This report is intended solely for the use of management and the governmental regulatory agencies and should not be used for any other purposes.

*Bruce A. Rukkala, CPA, PC*

Certified Public Accountants

June 16, 2006